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~~TOP SECRET~~

~~TOP SECRET~~

SUMMARY

GENERAL

1. French premier admits vulnerability to any conciliatory Soviet offer (page 3).

FAR EAST

2. Two Soviet bloc vessels escorted past Hainan Island (page 3).

SOUTHEAST ASIA

3. Burma reported considering recognition of Laos and Cambodia (page 4).

SOUTH ASIA

4. Afghan prime minister threatens to turn to USSR (page 5).


NEAR EAST - AFRICA

5. Comment on Suez base settlement (page 5).

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~~TOP SECRET~~**GENERAL****1. French premier admits vulnerability to any conciliatory Soviet offer:**

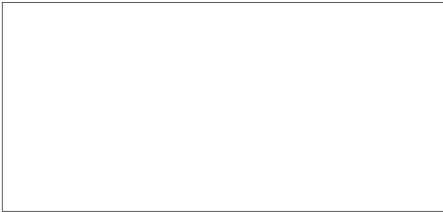
 Premier Mendes-France told Ambassador Dillon on 26 July that he had expected and feared a Soviet proposal for a European security system that "would have required serious consideration." He said he had not had time to study the latest Soviet note thoroughly, but that he was surprised the proposal for a European conference was so devoid of new ideas.

A Foreign Ministry official told Dillon on the same day that the offer should not be flatly rejected since the subject was of "prime interest, at least to France." He agreed with other officials and the premier, however, that the note would give little encouragement to neutralist circles and that France must go ahead with plans to reach a decision on EDC.

Comment: Mendes-France has told Dillon that his talk with Molotov on 21 July was inconclusive. He said Molotov simply repeated clichés and his standard attack on EDC and did not mention the proposal--put forward since--for a European conference.

While French press comment on the Soviet security proposal agrees with Mendes-France's views, the premier's statements to Dillon clearly indicate his realization that he cannot flatly reject four-power talks. A Soviet offer involving some concession such as free all-German elections would considerably strengthen the hand of those hoping to block German rearmament.

FAR EAST**2. Two Soviet bloc vessels escorted past Hainan Island:**

 On 26 July American planes sighted the Polish cargo ship Braterstwo and an unidentified merchant ship being escorted by a Chinese Communist gunboat just off the

~~TOP SECRET~~

~~TOP SECRET~~

northeast coast of Hainan, heading for the Pearl River. The merchant ships are believed to have picked up the gunboat escort at Yulin on the southern coast of Hainan.

Comment: The Chinese Communists are now apparently giving Orbit shipping combined air-sea escort over the entire 400 miles between the southern tip of Hainan and Whampoa.

The unidentified ship may be the Polish cargo ship Bytom, which has been accompanying the Braterstwo. The arrival of these two vessels will make a total of at least eight--including two Russian tankers--with European cargoes to have crowded into the small port of Whampoa since 10 July.

SOUTHEAST ASIA

3. Burma reported considering recognition of Laos and Cambodia:

The Burmese government is considering recognition of the governments of Laos and Cambodia as a step toward stemming Communist advances in Southeast Asia, according to the British Foreign Office. The British are discreetly encouraging this line of thinking and believe it is a good indication that Chou En-lai's recent visit to Rangoon was harmful to Communist interests.

Comment: Burmese leaders have become well aware that Communist control of Indochina would threaten Burma's security and have been seeking means of strengthening their country's position without antagonizing Communist China. They probably feel that the de facto recognition given by the Communists at Geneva to the royal governments of Laos and Cambodia makes it safe for Burma to recognize them also.

~~TOP SECRET~~

~~TOP SECRET~~

The Philippine government announced publicly on 24 July that it is considering recognition of Laos and Cambodia. Thailand is the only Southeast Asian country which now recognizes these two Associated States.

SOUTH ASIA

4. Afghan prime minister threatens to turn to USSR:

Comment: In the past few months, Afghanistan has made new approaches to the United States, Turkey, Saudi Arabia and India seeking their support on the long-standing Pushtoon-istan question, apparently using whatever arguments seemed most appropriate in each instance.

The Afghan rulers are acutely aware of the dangers of closer relations with the Soviet Union,

NEAR EAST - AFRICA

5. Comment on Suez base settlement:

Formal settlement of the Suez base question marks the beginning of a new era in Egyptian relations with the West. Agreement on the present terms will have the immediate result of strengthening the position of the Nasr regime, both domestically and among the other Arab states.

~~TOP SECRET~~

~~TOP SECRET~~

Egypt may now adopt a more constructive attitude on such issues as alignments within the Arab League, regional defense, and co-operation with the West. As the recognized Arab leader, Egypt is in a position to influence other Arab states.

Domestically the regime must now face up to the problem of implementing its much-publicized economic development program. Here, at best, only limited achievements are possible because of Egypt's basic problems of overpopulation and lack of resources.

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